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DEPT FOR NEA/IPA FRELICH, GOLDBERGER; TREASURY FOR BALIN

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SUBJECT: DEPUTY PM SILVAN SHALOM MEETS TREASURY ACTING A/S
BAUKOL

Classified By: Economic Counselor David R. Burnett for reasons 1.4 (b)
and (d).

11. (U) Summary: Treasury Acting Assistant Secretary for International Affairs Andy Baukol met with Deputy Prime Minister and Minister for Regional Cooperation Silvan Shalom in his Knesset office on December 14 to discuss GoI efforts to assist the development and growth of the Palestinian economy. Shalom encouraged the U.S. to have a more active role in supporting the economic initiatives that his Ministry promotes, and bemoaned the fact that direct Ministerial meetings between the GoI and the PA have ceased due to political pressures.

12. (SBU) Following meetings with senior PA officials and business representatives, and an address at the Israeli Business Conference sponsored by Globes publications, Treasury Acting A/S Baukol met with Minister of Regional Cooperation Silvan Shalom to get his views on the economic progress in the West Bank. Shalom had recently met with Office of the Quartet Representative (OQR) staff and told Baukol that he was trying to give positive responses to the Palestinian requests brought by OQR but expected the PA to make this easier by acting against extremists and continuing the progress on security. He said he was impressed by the West Bank's economic growth -- in the double digits, he said -- and noted that Israel has helped by easing access restrictions which allows for increased trade. He cited the 500-700 vehicles per day that cross at Jalameh and the 7,000 people that enter Nablus to shop each Saturday. OQR representatives had recently requested openings of road obstacles into and around Tulkarem and Ramallah.

13. (C) Shalom lamented the criticism that former PA Minister of National Economy Bassam Khoury received for meeting with him at the Joint Economic Committee meeting in September, and said that this was part of the reason Khoury was forced to resign. He was not sure that the new Minister, Hassan Abu Libdeh, would be willing to hold discussions at the Ministerial level, but OQR representatives had indicated that another JEC meeting might soon be possible. Despite the high-level cessation, working groups continue to meet and Shalom praised the efforts of the tourism subcommittee, which he said would be meeting on Dec. 15, to discuss a GOI-proposed package for holy land tourists to travel to the Jordan River, Jerusalem, Bethlehem and Nazareth. Regarding the paucity of high-level meetings between PA and GoI officials, Shalom said that PA Prime Minister Fayyad's political ambitions were part of the problem. He said Fayyad is attempting to build political and nationalist stature, moving away from his technocrat roots, in order to secure the Presidency, and this forced him to avoid engaging with Israelis. (Note: Shalom's assessment of Palestinian Prime Minister Fayyad's political ambitions strike us as interesting but uncorroborated. End Note)

14. (SBU) Baukol asked Shalom's assessment of the economic

growth in the PA, and cited donor money, improved law and order, and GoI's loosening of restrictions as the key factors. Shalom agreed that the PA's success in securing law and order was a necessary ingredient for business confidence and he praised General Dayton's team for the assistance they provide to the PA security forces. On the GoI side, he noted that the simple fact that the Ministry of Regional Cooperation now exists is an indication of the new government's desire to provide new avenues of assistance. Before, he noted, the Ministry of Defense had the final word but now there are more options. He cautioned, however, that one terrorist entering from an area where a roadblock had been removed could roll back all the progress that has been made.

15. (SBU) Shalom noted his regular contact with representatives from OQR and said that OQR helps the PA more than the PA helps themselves. While OQR is very active, they don't have the funds to support all the projects they would like. For instance, Shalom said that OQR had requested that the Tarqumia crossing (near Hebron) open two hours earlier (5 a.m. rather than 7 a.m.) to facilitate greater trade traffic to the Ashdod port. He estimated the cost at about \$1.5-2 million per year and invited the U.S. to consider funding this. While noting that the U.S. had funded much of the crossing at Jalameh, (his staff reminded him of the U.S. funds used to purchase scanners at Jalameh, Kerem Shalom and Tulkarem) Shalom said that it appeared to him that the U.S. was not as involved as it had been, ceding a more active role to the Europeans. Hedging a bit, he said there were many more actors on the scene now, but U.S. leadership was critical and most welcome from the Israeli perspective.

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16. (SBU) Baukol told Shalom and his staff that Treasury was following banking issues in the West Bank and Gaza with some concern. Shalom noted the BoI's involvement to insure the transfer of excess shekels from Arab Bank to Discount Bank would be successfully concluded in the coming weeks. Adi Ashkenazi, the Ministry's Director of Economic Affairs, responded that the Palestinian banks must provide documentation required under Israeli law to prove that money does not go to terrorist causes. Baukol noted that most assessments he has heard indicate that the PA has a solid anti-money laundering regime.

17. (SBU) Shalom told Baukol that he would welcome increased USG engagement with his staff at the Ministry to discuss these matters in depth. Baukol asked if it would be useful for the three sides (U.S., PA and Israel) to meet; Shalom agreed that it would be useful either at the Ministerial level or at the professional level. He emphasized that issues of cooperation with the PA are marginal for other Ministries but are the prime concern for him. He said that the new head of COGAT, General Dangot, seemed to be very cooperative, but cautioned that the situation with Hamas and the continued captivity of Gilad Schalit makes it very difficult to be flexible.

18. (C) Comment: Adi Ashkenazi and Yishay Sorek of the Ministry of Regional Cooperation attended the meeting and afterward appeared frustrated that the Minister had not followed his talking points. They underscored the USG's regular consultation and involvement, and encouraged Emboffs to meet soon to discuss the projects that were not mentioned by the Minister, in particular SPROUT (a spin-off of BIRD that would focus industrial research cooperation between Israel, the U.S. and the PA) and the Jordan Palestine Israel Center for applied agricultural research training and clean-tech. Emboffs will schedule a meeting soon.
CUNNINGHAM